

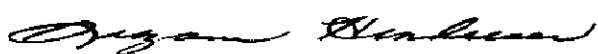
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OIL AND GAS LEASE  
(No Surface Use)

THIS LEASE AGREEMENT is made this 13<sup>th</sup> day of October, 2010, between William R. Buehler and Marian J. Buehler, 3611 Curt Dr., Arlington, TX 76016 as Lessor, and PALOMA BARNETT, LLC, 1021 Main St., Suite 2600, Houston, TX 77002-6606 as Lessee. This lease was prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and leases exclusively unto Lessee the following described land, hereinafter called leased premises:

2.5 acres, more or less, situated in the T H Watson Survey, A – 1689, and being Lot 4, of T H Watson Addition, an addition to the City of Arlington, Tarrant County, Texas, according to the map or plat thereof recorded in Volume 388-103, Page 199, Plat Records, Tarrant County Texas,

in the County of TARRANT, State of TEXAS, containing 2.5 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the sole purpose of exploring, drilling, and producing oil and gas, and to produce, save and transport oil and gas and other products manufactured from oil and gas produced from the leased premises, but only as to depths below 500 feet beneath the surface. This lease does not include the right to use underground water or to inject or dispose of saltwater, fluids, or other material under the leased premises. The term “gas” as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above described lease premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee’s request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a “paid-up” lease requiring no rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Lessee agrees to pay to Lessor, on oil, gas, and other liquid hydrocarbons produced and saved from the leased premises, Twenty-five (25%) Percent (the “Royalty Fraction”). Lessee agrees to pay to Lessor (a) the Royalty Fraction of all oil (including distillate or condensate and other liquid hydrocarbons) produced and saved from the leased premises; (b) the Royalty Fraction of the market value of the gas at the point of delivery or first sale of all gas, including casinghead gas or other gaseous substances, produced from the leased premises; (c) notwithstanding subsection (b) above, the Royalty Fraction of the market value for the process gas and products therefrom that are allocable to the production from the leased premises, where gas is produced in a plant owned by Lessee or any affiliated person or entity, and if processed, but not by Lessee or an affiliated person or entity, the Royalty Fraction of that part of the gross proceeds received by Lessee for the processed gas and products therefrom that are allocable to the production from the leased premises; (d) on gas produced from the leased premises and sold by Lessee or used off the leased premises and to which the preceding subparagraphs (b) and (c) do not apply, the Royalty Fraction of the market value at the point of sale, use or other disposition; (e) on gas produced from the leased premises that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the market value of the gas at the inlet to the processing plant, or the Royalty Fraction of the market value of all processed liquids saved from the gas at the plant plus the Royalty Fraction of the market value of all residue gas at the point of sale, use, or other disposition; (f) on gas produced from the leased premises that is processed in facilities other than a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the gross proceeds at the plant of all processed liquids

credited to the account of Lessee and attributable to the gas plus the Royalty Fraction of the gross proceeds of all residue gas at the point of sale, use, or other disposition.

4. The market value of gas will be determined at the specific location by reference to the gross heating value (measured in British Formal Units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition of the oil and/or gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes from an affiliate thereof, proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, marketing, or mediation, then the reimbursement or the deductions will be added to the total proceeds received by Lessee. Notwithstanding the foregoing, no royalty shall be due or payable on oil and gas produced from the leased premises and consumed by Lessee on the leased premises for compression, dehydration, fuel, or other use. It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this lease or by State law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form; however in the event Lessee determines in good faith that it can obtain a higher price at a different market for the gas produced under this lease, and Lessee incurs a reasonable out-of-pocket costs charged by an unaffiliated interstate or intrastate gas pipeline in order to enhance the value of such gas, then Lessor's pro rata share of such costs may be deducted from Lessor's share of production, so long as they are based on Lessee's reasonable and actual out-of-pocket additional cost of such enhancements and only to the extent of the actual increase in price directly attributable to said enhancements. In no event shall Lessor ever receive a price that is less than the price received by Lessee or an affiliate of Lessee. It is the specific intent of the parties to this lease that the provisions of this paragraph are to be treated as enforceable as written and not to be deemed "surplusage" under the principles set forth in *Heritage Resources, Inc. v. Nations Bank*, 939 S.W.2d 118 (Tex. 1996).

5. If gas produced from the leased premises or lands pooled therewith is sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and the contract provides for net proceeds to be paid to Lessee that equal or exceed the market value of the gas at the point of delivery to the purchaser, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to the contract shall be the net proceeds received by Lessee in the sale, subject to the provisions of paragraph 4 above.

6. Lessor shall be paid the Royalty Fraction of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced, and if the gas is subsequently produced, Lessor will receive only its Royalty Fraction of the market value of the volume of gas for which payment has not already been made.

7. Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 120 days from the first day of the month following the first day of sales from said well. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month production. Lessor's royalty payment will be accompanied by a clear, understandable report that sets forth the information reasonably necessary to calculate the royalty payment. If not paid when due, Lessor's royalty will bear interest at the maximum lawful rate from the due date until paid, which amount Lessee agrees to pay. Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its rights to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. Notwithstanding anything to the contrary contained in this lease, should a royalty payment not be made for a period of one hundred and twenty (120) days from the anniversary date of the due date as provided for in this lease, unless there is then in effect and other applicable preservation provision of this Lease, Lessor may, at Lessor's option, elect to terminate the applicable portion of this lease by sending written notice to Lessee by certified mail. Lessee shall then have ninety (90) days from the date of service of such written notice in which to avoid termination of the Lease by making or causing to be made the proper royalty payment plus interest. If such royalty payment plus interest is not made on or before the expiration of said ninety (90) day period, or written approval is not obtained from Lessor to defer such payment, lessor may elect to terminate the Lease by filing a Notice of Termination with the County Clerk in

the county where the leased premises are located. The royalty payment obligations under this lease shall not be affected by any division order or the provisions of Section 91.402 of the Texas Natural Resources Code or any similar statute. However, Lessor shall, upon request by Lessee, execute a division order that conforms with Section 91.402 of the Texas Natural Resources Code.

8. As used in this lease, "affiliate" means (a) a corporation, joint venture, partnership, limited liability company, limited partnership, or other entity that owns more than ten (10%) percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten (10%) percent of the outstanding voting interest; or (b) a corporation, joint venture, partnership, limited liability company, limited partnership, or other entity in which, together with Lessee, more than ten (10%) percent of the outstanding voting interest of both Lessee and the other corporation, joint venture, partnership, limited liability company, or other entity, is owned or controlled by the same persons or group of persons.

9. The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessees acquiring legal or equitable title to those proceeds, but Lessee will at all times hold the proceeds in trust for the benefit of Lessor.

10. If at the end of the primary term or any time thereafter, one or more wells on the leased premises or lands pooled therewith are capable of either producing oil or gas or other substances covered hereby in paying quantities or such wells are waiting on hydraulic fracture stimulation, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of ninety (90) consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of Twenty-Five (\$25.00) dollars per net mineral acre then covered by this lease for each year during which said well is situated on lands pooled with the leased premises, and this lease is not otherwise maintained, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said ninety (90) day period and thereafter on or before each anniversary of the end of said ninety (90) day period. Lessee may exercise its right to make shut-in royalty payments as provided for herein from time to time; however, this lease may be maintained by such shut-in royalty payments only if Lessee is exercising reasonable, bona fide diligence in attempting to produce, market and sell gas hereunder. Notwithstanding anything herein to the contrary, this lease shall not be maintained by shut-in royalty payments for periods totaling more than two (2) consecutive years or four (4) years in the aggregate.

11. Except as provided for in paragraphs 3 through 10, above, if Lessee drills a well that is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including the revision of unit boundaries pursuant to the provisions of paragraph 12 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within one hundred eighty (180) days after completion of operations on such dry hole or within one hundred eighty (180) days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than one hundred eighty (180) consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

12. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee

deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10% and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density patterns that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well within initial gas – oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well within initial gas – oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means a well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on the unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density patterns prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production of which royalties are payable hereunder shall there thereafter be adjusted accordingly. No part of the leased premises may be included in a pooled unit unless at least one-half (½) of the then unpooled portion of the leased premises is included in said pooled unit. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit of filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross conveyance of interests.

13. Lessor makes no warranty of any kind, either express or implied, with respect to title to the leased premises or the minerals subject to this Lease. However, if Lessor owns an interest in the leased premises or the minerals subject to this lease less than the entire fee simple estate, then the royalties payable hereunder will be reduced proportionately. By acceptance of this lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the leased premises and the minerals subject to this lease, and Lessee assumes all risk of title failures, and in connection therewith Lessee shall have no recourse against Lessor, including no right to a refund of the bonus and royalties paid for or under this lease.

14. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and or by depth of zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarge the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirement contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time 2 or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit at the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

15. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

16. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, and primary and/or enhanced recovery, Lessee shall have no right of ingress and egress and no right to conduct any operations on the leased premises, including but not limited to geophysical operations, the drilling of wells, or the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power lines, or any other facilities. No well shall be located on the leased premises and Lessee shall pay for damage caused, directly or indirectly, by its operations to buildings, swimming pools, riding arenas, turnout sheds, driveways, fences and other improvements now on the leased premises or hereinafter placed on the leased premises, and to trees, landscaping, horses and other livestock and growing crops thereon. Lessee will conduct all operations under this lease and/or on lands pooled here with in compliance with current and any future applicable rules of the Railroad Commission of Texas, and all federal, state, and local laws, rules, regulations, and ordinances, including without limitation, all environmental laws, rules, regulations, and ordinances.

17. Any payment of royalty or shut-in royalty hereunder paid to Lessor in excess of the amount actually due to the Lessor shall nevertheless become the property of Lessor if Lessee does not make a written request to Lessor for reimbursement within two (2) years from the date that Lessor received the erroneous payment, it being agreed and expressly understood between the parties hereto, that Lessor is not the collecting agent for any other royalty owner under the leased premises, and the determination of the name, interests ownership, and whereabouts of any person entitled to any payment whatsoever under the terms hereof shall be the sole responsibility of Lessee. It is further expressly agreed and understood that this provision shall in no way diminish the obligation of Lessee to make full and punctual payment of all amounts due to Lessor or to any other person under the terms and provisions of this lease. If Lessee provides proper and timely notice to Lessor of any overpayments made to Lessor, such overpayment shall only be made up by deducting them from future royalty payments to Lessor.

18. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production, or other operations are prevented or delayed by such laws, rules regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, excess or easement, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and that Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

19. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor and lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of 15 days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

20. Lessor agrees to stay, without prejudice, for ninety (90) days any litigation that may be initiated by Lessor with respect to any breach or default by Lessee hereunder, but for which Lessor has failed to provide Lessee with written notice describing the breach at least ninety (90) days before filing suit. In the event any matter is litigated and there is an appealable judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so

21. For the same consideration recited above, Lessor hereby grants, assigns and conveys unto Lessee or its successors and assigns, a perpetual subsurface well bore easement under and through the leased premises for the placement of well bores (along routes selected by Lessee and at a depth below the surface of at least 500 feet) for oil or gas wells that are not intended to develop the leased premises or lands pooled therewith and from which lessor shall have no right to royalty or other benefit. Such subsurface well bore easement shall run with the land and survive any termination of this lease

22. Lessor hereby warrants and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder until Lessee has been furnished satisfactory evidence that such claim has been resolved, at which time any royalties or shut-in royalties due Lessor shall be paid plus applicable interest.

23. Notwithstanding anything contained to the contrary in this lease, Lessee shall not have any rights to use the surface of the leased premises for drilling or other operations of any nature.


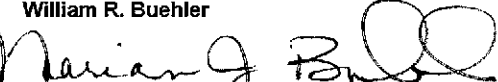
24. In the event this lease terminates for any reason as to all or any part of the leased premises, Lessee shall, within sixty (60) days of receiving a written request from Lessor, deliver to Lessor a recordable release covering all of the leased premises or that portion of the leased premises as to which this lease terminated.

25. Lessor, and their successors and assigns, hereby grants Lessee an option to extend the primary term of this lease for an additional period of two (2) years from the end of the primary term by paying or tendering to Lessor, prior to the end of the primary term, the same bonus consideration, terms and conditions as granted for this lease.

26. This lease may be executed in counterparts each of which is deemed an original and all of which only constitute one original.

**DISCLAIMER OF REPRESENTATIONS:** Lessor acknowledges that oil and gas lease payments, in the form of rental, bonus and royalty, are market sensitive and may vary depending upon multiple factors and that this Lease is the product of good faith negotiations. Lessor understands that these lease payments and terms are final and that Lessor entered into this lease without duress or undue influence. Lessor recognizes that lease values could go up or down depending on market conditions. Lessor acknowledges that no representations or assurances were made in the negotiation of this lease and the Lessor would get the highest price or different terms depending on future market conditions. Neither party to this lease will seek to alter the terms of this transaction based upon any different terms which Lessee has or may negotiate with any other lessors/oil and gas owners.

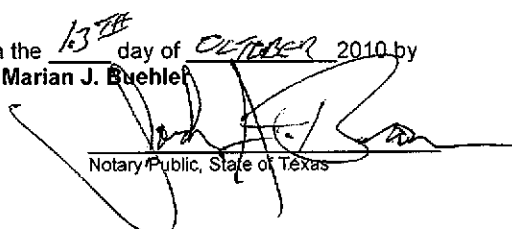
IN WITNESS WHEREOF, this lease is a executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

  
William R. Buehler  
  
Marian J. Buehler

**ACKNOWLEDGMENT**

STATE OF TEXAS  
COUNTY OF TARRANT

This instrument was acknowledged before me on the 13<sup>TH</sup> day of OCTOBER 2010 by  
William R. Buehler and Marian J. Buehler

  
Notary Public, State of Texas

